

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

DTX5028 – TAXATION 2

(All sections / Groups)

24 OCTOBER 2018

9.00 a.m. – 12.00 p.m.

(3 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 10 pages with 5 Questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

Coral Garden Manufacturing Sdn Bhd is a Malaysian resident company which incorporated their business since 2012 till present. The company manufactured luxury silks used in textile industry. The luxury silks are sold locally as well as exported.

The company has an authorised paid up capital of RM7.8 million with eighty percent of the shares held by Malaysian citizens and the remaining are held by foreign investors. Coral Garden Manufacturing Sdn Bhd closes its accounts on 31 December each year. The financial results for the year ended 31 December 2017 is appended below:

Coral Garden Manufacturing Sdn Bhd Statement of Comprehensive Income for the year ended 31 December 2017			
	Note	RM'000	RM'000
Sales			259,200
Less: Cost of sales			(175,000)
Gross profit			84,200
Add: Other income			
Dividend	1	47	
Interest		33	
Rental income		24	104
			84,304
Less: Expenses			
Salaries and wages	2	5,200	
Entertainment	3	230	
Motor vehicle expenses	4	260	
Depreciation		102	
Repair and maintenance	5	542	
Insurance	6	195	
Bad and doubtful debts	7	600	
Lease payments	8	440	
Advertisement and publicity	9	300	
Professional fees	10	93	
Donation	11	376	
Interest on loan	12	810	
Foreign exchange loss	13	52	(9,200)
Net profit			75,104

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Notes to the account for the year ended 31 December 2017:

1. Dividend

A single tier dividend income of RM27,000 was received during the year from an investment in a textile company listed in the Bursa Malaysia. Another dividend of RM20,000 was received from an investment in a foreign company that was remitted to Malaysia on June 2017.

2. Salaries and wages

Salaries and wages included remuneration to the company's managing director and the details are as follows:

	Particulars	RM'000
a)	Salary	850
b)	EPF contribution	415
c)	One free oversea trip to Australia	270
d)	Allowance for travelling	285
	Total	1,820

3. Entertainment

The entertainment expenses comprise the following:

- a) The company celebrated its anniversary with an annual dinner to appreciate loyal staffs together with their family costing to RM100,000.
- b) A sum of RM52,000 was disbursed to the marketing and sales staff for entertaining customers.
- c) Promotion expenses were incurred for each company's new product launched costing RM78,000.

4. Motor vehicle expenses

- a) Motor vehicle expenses included RM50,200 of traffic fines by the sales and marketing staff.
- b) RM54,000 had been used for a maintenance of the existing delivery lorry as well as the company's car used in the business.
- c) The company acquired five second hand lorries at negotiated price of RM56,000 from a used car dealer. However, company had spent a total of RM150,000 for a major repair.

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5. Repair and maintenance

The company had incurred the following expenses during the year:

	Particulars	RM'000
a)	Extension to factory building	300
b)	Change damaged tiles of the factory	95
c)	Renovation of administrative office	110
d)	Other repairs	37
	Total	542

6. Insurance

The company paid a premium of RM100,000 to a foreign insurance firm to export the luxury silk. Meanwhile, another RM95,000 was incurred on premium for fire and flood insurance on the company's property.

7. Bad and doubtful debts

Bad and doubtful debts incurred during the year are as follows:

	Particulars	RM'000
a)	Trade debts written off	170
b)	General trade debts provision	158
c)	Specific trade debts provision	201
d)	Advance to supplier written off	71
	Total	600

8. Lease payment

During the year, the company lease a car for business use for RM180,000 (a new car would have cost RM300,000). An additional fabricating machine was leased to satisfy high demand of the silk. The fair value of the machine is RM260,000.

9. Advertisement and publicity

- RM120,000 was spent to promote the company's own brand name.
- Contribution for the provision of library facilities which are open to public amounting to RM180,000.

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10. Professional fees

During the year, the company had incurred professional charges as follows:

	Particulars	RM'000
a)	Secretarial fees	24
b)	Income tax filing fees	40
c)	Legal fees for the preparation of lease agreements as in note 8	29
	Total	93

11. Donation

A cash donation of RM376,000 was made to an approved Malaysian charitable body during the year.

12. Interest on loan

RM510,000 was the interest paid for a working capital loan taken on January 2017 and another RM300,000 was the interest on loan for the foreign investment in which the company received the dividend during the year.

13. Miscellaneous

An unrealised loss in a total of RM52,000 was incurred due to the import of some fabric material and fabricating machine during the year.

14. Other information

For the year assessment 2017, the company is claiming capital allowances of RM670,000 on its qualifying plant and machinery and other assets used throughout the business and another RM450,000 on balancing charge.

Required:

Based on the information given, compute the chargeable income of Coral Garden Manufacturing Sdn Bhd for the year of assessment 2017.

Note: i. Your computation should start with the profit before taxation figure and follow the description used in the profit and loss account, and where applicable the description used in the notes to the accounts. In making your tax adjustments to the entries, you should indicate 'Nil' where no adjustments are made or are not required. You do not need to explain the adjustments that you are making. ii. Round up all figures to the nearest thousand.

(Total: 20 marks)

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QUESTION 2

Mas, Yana and Shira are good friends and also business partners in Touch of Class Partnership. The partnership was incorporated in Kelantan since 2012 where they are selling frozen traditional 'kuih'. Mas, Yana and Shira contributed a capital of RM50,000, RM30,000 and RM20,000 respectively.

On August 2017, Shira retired from the business. On 1 September 2017, Didi was admitted as a new partner with a capital contribution of RM15,000.

The partnership account information for the year ended 31 December 2017 are as follows:

	RM	RM
Sales		270,000
Less: Cost of sales		(72,000)
Gross profit		198,000
Less:		
Partner's salary	47,400	
Interest on capital	9,750	
Depreciation	12,500	
Repairs	3,600	
Food carnival	25,000	
Approved donation	2,500	(100,750)
Net profit for the year		97,250

Additional information:

- Information pertaining to the partnership are as follows:

Period	Monthly salary (RM)	Profit sharing
1 January 2017 – 31 August 2017		
Mas	1,800	5
Yana	1,200	3
Shira	950	2
1 September 2017 – 31 December 2017		
Mas	2,000	2
Yana	1,500	2
Didi	1,100	1

- The interest on capital from 1 January 2017 until 31 December 2017 was maintained to 10% per annum.
- The capital allowances claimed for the Year of Assessment (YA) 2017 was RM15,000.

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Required:

- a) Calculate the provisional adjusted income for the partnership in 2017. (4 marks)
 - b) Calculate the divisible income for the partnership in 2017. (2 marks)
 - c) Calculate adjusted income for the partnership in 2017. (11 marks)
 - d) Calculate the statutory income for Mas, Yana and Didi for the YA 2017. (3 marks)
- (Total: 20 marks)

QUESTION 3**PART A**

On April 2012 Keisha purchased a double-storey house. An agreement was signed for the purchase on that date with an agreed price of RM415,000. Full payment had been made on 15 June 2012 from the bank's loan. The ownership was transferred to Keisha on 31 August 2012. During the acquisition, Keisha incurred the cost of stamp duty as well as legal fees of RM4,300 and RM3,750 respectively.

After four years in used, the house is struck by the flash flood. Thus, Keisha received a compensation of RM56,000 from insurance company. Due to poor living condition, Keisha decided to sell off the house on 1 October 2016. Keisha put up the house for sale and after some initial negotiation, the potential buyer, Azlan paid a deposit of RM9,200. However, Azlan's loan application was rejected and Keisha forfeited the deposit.

Issue arose between Keisha and Azlan when they argue upon the title of a third party and Keisha had employed a lawyer to successfully defend her right to the land. The legal fee was RM6,600.

On February 2017, Keisha manage to find a new buyer. After some negotiation, the buyer agreed to purchase the house for RM425,100 and the agreement was signed on 28 February 2017. The title was transfered immediately when the buyer settles its full payment on 24 March 2017.

Keisha incurred some incidental expenses which include a valuation fees of RM5,400, advertisement of RM2,700 and brokerage fees of RM8,800. Besides, Keisha also incurred an interest charge and legal fees upon the disposal which amounted to RM2,900 and RM3,200 respectively.

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Required:

In relation to the Real Property Gain Tax Act 1976, compute the RPGT payable.

(10 marks)

PART B

Chamber Bhd is a Malaysian resident construction company which is situated in Kedah. Chamber Bhd paid the costs contributed in the connection with the construction of a power station in Kedah during year 2017.

The payment included RM58 million to Genesis Ltd, a Thailand company for the construction of the power station. The amount is divided into the services performed and for the supply of materials and equipment amounted to RM23 million and RM35 million.

Chamber Bhd took a loan from Malaysian bank's branch in Thailand to finance the power station construction. The interest costs amount to RM4 million.

Chamber Bhd pay RM12 million for a technical service relating to design from Genba Ltd, a Japan company.

Another payment made to Classy Ltd, a Singapore company for the installation of the equipment amounted to RM11 million and RM7 million to Kiara Ltd, a Taiwan company for the right to use their trademark.

Required:

- a) Explain with reasons, whether each of the payment made is subject to withholding tax. (5.5 marks)
- b) Compute the withholding tax (if any) for the above transaction. (4.5 marks)

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QUESTION 4

A new van costing RM135,000 has been fully used by Geetha Sdn Bhd, a trading business since 1 January 2015.

On 30 September 2017, Geetha traded the van for a new lorry which will be used in the business. The following are the details:

	RM
Cost of the lorry	120,000
Cash deposit	(6,000)
Trade-in value of the van	(60,000)
Hire purchase loan (exclude interest)	<u>54,000</u>
Total number of instalment	36
Date of first instalment (new lorry)	1 October 2017

The company year end is 31 December.

Required:

- a) Compute the capital allowances in respect of the van for year of assessment (YA) 2015 and 2016 and the balancing allowance/charge upon its disposal in the YA 2017.
(9 marks)
- b) Compute the capital allowances in respect of the lorry for the YA 2017 and 2018.
(11 marks)
(Total: 20 marks)

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QUESTION 5**PART A**

Rainbowheel Sdn Bhd is an established manufacturer of tyres. Rainbowwheel Sdn Bhd closes its annual account on 31 July. On 1 December 2015, the company acquired a factory building and make some construction. It took 6 months to complete the construction, that is on 1 February 2016. The expenses incurred during the construction are as follow:

Date	Expenditure	Amount (RM)
1/12/2015	Building acquired:	
	- Land	280,000
	- Factory	650,000
1/2/2016	Constructed building:	
	- Construction costs	215,000
	- Professional fees	15,000
	- Road and car park (within the factory area)	28,000

Required:

Both building was used in the manufacturing of tyre products from 1 December 2015. Compute the industrial building allowance for Rainbowwheel Sdn Bhd for year of assessment 2016 and 2017. (10 marks)

PART B

Global Mineral Sdn Bhd closes its account on 30 June annually. It commenced its business on 1 July 2013. The company ceased mining operations on 1 August 2017. The qualifying mining expenditure as at 1 July 2013 amounted to RM5,200,000. The life span of the mine was estimated to be 10 years from 1 July 2013.

Required:

Compute the deductions available (mining allowances) to the company for the year of assessment 2018. (10 marks)
(Total: 20 marks)

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APPENDIX

The following rates and allowances are to be used in answering all questions:

Rates of Capital & Industrial Buildings Allowances for YA 2017:

Fixed assets/ Rate	Initial Allowance	Annual allowance
Motor vehicles, Heavy machinery	20%	20%
Plant & Machinery (general)	20%	14%
Office equipment, Furniture & Fittings	20%	10%
Industrial building	10%	3%
Public roads and ancillary structures which are recoverable through toll	10%	6%

Rates of Forest Allowances YA 2017:

Capital expenditure incurred on:	Rate
(a) the construction of other building (smoke house, estate office)	10%
(b) the construction of office	10%
(c) construction on a farm of a building for the welfare or living accommodation (labour quarter, temple)	20%

Rates of Real Property Gains Tax: *Effective 1st January 2014 onwards*

Real property	Malaysian Individual (Permanent resident or citizen)	Foreigners	Companies
Disposal within 3 years	30%	30%	30%
Disposal in the 4th years after the acquisition date	20%	30%	20%
Disposal in the 5th years after the acquisition date	15%	30%	15%
Disposal in the 6th years after the acquisition date or thereafter	Nil	5%	5%

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